

**ANNUAL REPORT
OF THE
LOCAL GOVERNMENT
FINANCE STUDY COMMISSION**



**Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789**

October, 2000

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2000

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Attorney for the Commission

Robert Sigalow
Fiscal Analyst for the Commission

A copy of this report is available on the Internet. Reports, minutes, and notices are organized by committee. This report and other documents for this Commission can be accessed from the General Assembly Homepage at <http://www.state.in.us/legislative/>.

I. STATUTORY AND LEGISLATIVE COUNCIL DIRECTIVES

The Local Government Finance Study Commission was originally established by P.L. 32-1992 to review laws affecting local government finance in Indiana. The Commission was first reestablished in 1994 and then again by P.L. 242-1997.

The Indiana General Assembly enacted P.L. 242-1997 directing the Commission to do the following:

- (1) Conduct a study of matters concerning local government, including the following:
 - (A) Ways to simplify and recodify statutory property tax controls.
 - (B) Revenue sources and the uses of the revenue.
 - (C) The impact of property tax controls on economic development.
 - (D) Alternative sources of revenue that are not derived from property taxes.
 - (E) Substantive changes to the Barrett Law.
- (2) Direct the Office of Fiscal and Management Analysis in a special inquiry into the financial organization of local government.

The Legislative Council assigned the following additional responsibilities to the Commission:

- (1) Study the feasibility of establishing shelters for the homeless and the extent to which the lack of funding has aggravated the problem of homelessness.

II. INTRODUCTION AND REASONS FOR STUDY

The Local Government Finance Study Commission met to carry out the responsibilities set forth in P.L. 242-1997 and the Legislative Council Resolution 00-1.

III. SUMMARY OF WORK PROGRAM

The Commission met four times in Indianapolis during the 2000 interim.

1. The first meeting was held on August 23, 2000 for the purpose of developing a work plan for the interim. The Commission determined that it would consider the following additional topics:
 - (1) The financing of township fire protection.
 - (2) Local fiscal home rule.
2. The second meeting was held on September 13, 2000. The Commission heard testimony concerning homelessness and the financing of township fire protection.

3. The third meeting was held on October 11, 2000. The Commission heard testimony advocating the adoption of local fiscal home rule.

4. The fourth and final meeting was held on October 24, 2000. The Commission heard additional testimony concerning local fiscal home rule. The Commission also discussed the testimony heard throughout the interim and adopted an annual report.

IV. SUMMARY OF TESTIMONY

The Commission heard testimony from interested persons concerning the following topics:

- (1) Homelessness.
- (2) The financing of township fire protection.
- (3) Local fiscal home rule.

(1) Homelessness

The Commission heard that approximately \$1,700,000 in federal money is annually distributed through the emergency shelter grant (ESG) program by the Indiana Family and Social Services Administration (FSSA). The commission learned that FSSA annually receives requests for more than \$3,000,000 in grants from the program. Consequently, FSSA is unable to provide most shelters the full amount of the shelters' requests. The testimony also indicated that while many states match the federal money in the ESG program, Indiana does not.

The Commission heard testimony comparing and contrasting the problem of homelessness in rural and urban areas. The Commission also heard about the services provided to the homeless in particular cities around the state.

The testimony indicated that the ESG program cannot meet the existing demand for money to operate emergency shelters. Moreover, the testimony concluded that Indiana does not have enough emergency shelters and inadequately funds the existing shelters.

(2) The Financing of Township Fire Protection

The Commission received a report concerning the various townships that have resorted to emergency short term borrowing to fund township fire protection since 1997. The testimony noted that when a township takes an emergency loan, tax dollars are devoted to interest payments and attorney fees rather than to providing fire protection.

The Commission learned that as township fire departments switch from being a volunteer department to a career department there is no mechanism available to pay for the switch. The law currently does not allow for an adjustment to a township's property tax levy. The testimony indicated that some townships are repeatedly impacted and forced to go outside the maximum

permissible property tax levy to fund expenses that the townships believe should remain inside the maximum levy.

The townships proposed adding an additional basis for a township to appeal to the State Board of Tax Commissioners for an increase to the township's maximum permissible property tax levy under IC 6-1.1-18.5-13. Under the proposal, a township that had taken short term emergency loans in the previous two years could appeal to the State Board of Tax Commissioners for an increase in the township's maximum levy for the current year. The proposal would limit a township to no more than one appeal every three years.

The Commission heard that townships lack the ability to impose fees to recoup costs for false alarms under the more limited home rule granted to townships. Thus, townships are denied a supplemental revenue made available to cities.

(3) Local Fiscal Home Rule

The testimony began with the argument that the availability of local decision makers increases public involvement in the making of fiscal policy. The Commission heard the legislative history of the concept of local fiscal home rule following its introduction in the 1997 session of the General Assembly. The General Assembly was urged to revisit the concept and pass the necessary legislation.

The testimony described Lafayette's experience convincing the General Assembly to enact legislation allowing the city to use economic development income tax revenue to clean up an environmentally hazardous "superfund" site. The witness stated that local fiscal home rule would have saved the city the time and expense of the lobbying effort as well as attorney fees and court costs related to the judicial challenges to the legislation.

The witness also described the options that would be available to the city and Tippecanoe county if a local sales tax was available under local fiscal home rule. The Commission learned that property tax relief is not a mandatory component of local fiscal home rule. The concept advocated before the Commission is to leave that decision to the appropriate local officials.

The Commission heard that in taxation, one size does not fit all and that under the current system local communities cannot develop tax policy that takes advantage of their unique qualities. The testimony included a description of the efforts of communities that sought changes in their statutorily authorized local taxes in the 2000 session of the General Assembly. Ultimately, the proposed changes failed to survive the legislative process. It was noted that special legislation is always necessary when communities desire changes to these taxes and often requires two or three attempts to get the legislation through the General Assembly. The witness added that the flexibility of local fiscal home rule would allow communities to act more quickly. Local fiscal home rule was touted as a service to both state and local governments allowing tax policy to be implemented without special legislation.

The testimony contained a series of "what ifs" detailing what a number of cities and counties could accomplish with the freedom to enact a local food and beverage tax, a local sales tax, or a local income tax.

The advocates of local fiscal home rule described a draft (PD 3567) of proposed legislation authorizing cities, towns, and counties to adopt local sales, food and beverage, and income taxes. The draft was contrasted with legislation introduced in the 1997 General Assembly. The draft was described as shorter and more limited than the 1997 legislation.

The testimony concluded with comments from a number of business organizations. Most expressed their willingness to work with the advocates of local fiscal home rule. The organizations stated their concerns about the level of property taxes in Indiana. However, the organizations also testified that they had a number of concerns about the draft and the concept of fiscal home rule. A number of organizations were particularly concerned about the implications of multiple sales tax jurisdictions as it affected their members' positions in a competitive market place.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Commission made no findings of fact during the 2000 interim.

The Commission made the following recommendations:

- (1) The Commission recommended that the General Assembly enact the legislation set forth in Preliminary Draft 3422 authorizing townships, fire protection territories, fire districts, and volunteer fire departments to impose false alarm fees under certain circumstances.
- (2) The Commission recommended that the General Assembly enact the legislation set forth in Preliminary Draft 3424 authorizing an excessive levy for township fire protection for townships that have resorted to short term borrowing in the previous two calendar years.
- (3) The Commission endorsed the concept of limited local fiscal home rule without adopting a draft of the proposal. The Commission urged the interested parties to continue the dialogue begun in the 2000 interim.

WITNESS LIST

Mr. Greg Beumer, Randolph County Commissioner
Mr. David Bottorff, Association of Indiana Counties
Mr. Kevin Brinegar, Indiana Chamber of Commerce
Mr. Steve Buschmann, Indiana Township Association
Mr. Mark Cahoon, Indiana Manufacturer's Association
Mr. Thomas "Buddy" Downs, Ice Miller
Ms. Tonya Galbraith, Indiana Association of Cities and Towns
Mr. Bill Hahn, Indiana Association of County Commissioners
Ms. Katrina Hall, Indiana Farm Bureau
Mayor David Heath, Lafayette, Indiana
Mr. Tom Morton, Indiana Association of Cities and Towns
Ms. Glenna Shelby, SDS Group, Ltd.
Mr. Patrick Taylor, Indiana Coalition on Housing and Homeless Issues
Mr. Gary Malone, H.J. Umbaugh & Associates, LLP
Ms. Christie Williams, Indiana Association for Community Economic Development